GOLD BULLION DEVELOPMENT CORP.

Condensed Interim Consolidated Financial Statements

September 30, 2012

Unaudited

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NOTICE TO READERS

The accompanying unaudited interim financial statements of Gold Bullion Development Corp. have been prepared by and are the responsibility of the Company's management.

In accordance with National Instrument 51-102, Continuous Disclosure Obligations of the Canadian Securities Administrators, the Company herewith discloses that its independent auditor has not performed a review of these condensed unaudited interim financial statements.

Signed 'Frank J. Basa"

Frank J. Basa, President

Signed "Thomas P. Devlin"

Thomas P. Devlin, Chief Financial Officer

GOLD BULLION DEVELOPMENT CORP.

Interim Condensed Consolidated Statement of Financial Position

(Expressed in Canadian Dollars)

As at	September 30, 2012 Unaudited	June 30, 2012 Audited
Assets		
Current		
Cash and cash equivalents	$ 229,629	$ 854,829
Receivables (Note 4)	1,421,347	4,780,833
Prepaid expenses	470,597	497,083
	2,121,573	6,132,745
Tax credit receivable - long-term (Note 4)	100,000	100,000
Deposit - long-term (Note 5)	171,800	171,800
Property, plant and equipment (Notes 8)	679,228	731,592
	3,072,601	7,136,137
Liabilities		
Current		
Trade and other payables (Note 6)	2,237,615	2,766,559
Term Loan payable (Note 9)	-	2,350,000
	2,237,615	5,116,559
Shareholders' Equity		
Share capital (Note 10)	48,137,100	46,935,108
Share-based payments reserve (Note 11)	7,049,295	8,238,587
Deficit	(54,351,409)	(53,154,117)
	834,986	2,019,578
	$ 3,072,601	$ 7,136,137

Nature and continuance of operations (Note 1)
Contingencies (Note 13)
Commitments (Note 14)

Signed "Frank Basa"

Signed "Roger Thomas"

See accompanying notes to interim condensed consolidated financial statements.

GOLD BULLION DEVELOPMENT CORP.

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

Unaudited

for the three months ended September 30,	**2012**	2011
Revenue		
Interest and other income	**$ 1,285**	$ -
	1,285	-
Expenses		
Exploration and evaluation (Note 7)		
Acquisition	**$ 2,210**	$ -
Assaying and testing	**224,178**	451,937
Depreciation	**13,644**	21,959
Drilling	**49,018**	1,558,167
Equipment	**26,546**	439,420
Facility expenses	**33,011**	134,710
Geology, geophysics and surveys	**4,502**	163
Personnel costs	**147,295**	350,971
Program management and engineering	**176,835**	823,066
Security	**49,299**	52,029
Taxes, permits and licensing	**14,934**	2,209
	741,472	3,834,631
Corporate		
Administrative and general expenses	**37,928**	31,305
Consulting fees	**144,761**	88,483
Financing charges	**17,763**	-
Management fees	**110,616**	88,132
Professional fees	**43,976**	36,937
Filing costs and shareholders' information	**38,535**	150,006
Travel	**50,826**	50,690
Stock-based compensation	**12,700**	119,100
	457,105	564,653
Total expenses	**1,198,577**	4,399,284
Net loss and comprehensive loss for the period	**$ (1,197,292)**	$ (4,399,284)
Net loss per share - basic and fully diluted	**$ (0.01)**	$ (0.03)
Weighted average number of shares outstanding		
basic and fully diluted	**186,069,696**	166,774,711

See accompanying notes to interim condensed consolidated financial statements.

GOLD BULLION DEVELOPMENT CORP.

Interim condensed Consolidated Statement of Changes in Equity
Unaudited
(Expressed in Canadian Dollars)

	Share Capital	Share Based Payments Reserve	Deficit	Total Equity
Balance June 30, 2011	$ 39,778,799	$ 9,021,839	$ (42,433,635)	$ 6,367,003
Options Granted		119,100		119,100
Exercise of warrants	38,064	(12,828)		25,236
Exercise of Options	13,275	(5,775)		7,500
Net loss for the three months ended Sept. 30, 2011	-	-	(4,399,284)	(4,399,284)
Balance September 30, 2011	39,830,138	9,122,336	(46,832,919)	2,119,555
Issued for property	211,500	-	-	211,500
Issued by private placement	5,093,093	618,921	-	5,712,014
Premum on flow-through shares	(742,278)	-	-	(742,278)
Options Granted	-	744,000	-	744,000
Options vested	-	12,700	-	12,700
Exercise of warrants	676,473	(229,388)	-	447,085
Exercise of Options	-	-	-	-
Warrants expired	1,960,456	(1,960,456)	-	-
Options expired	-	(163,800)	-	(163,800)
Warrants extended	(94,274)	94,274		
Net loss for the year ended June 30, 2012	-	-	(6,321,198)	(6,321,198)
Balance June 30, 2012	46,935,108	8,238,587	(53,154,117)	2,019,578
Options vested	-	12,700	-	12,700
Warrants expired	1,201,992	(1,201,992)		-
Net loss for the three months ended Sept. 30, 2012	-	-	(1,197,292)	(1,197,292)
Balance September 30, 2012	$ 48,137,100	$ 7,049,295	$ (54,351,409)	$ 834,986

See accompanying notes to interim condensed consolidated financial statements.

GOLD BULLION DEVELOPMENT CORP.
Interim condensed Consolidated Statements of Cash flows
Unaudited

(Expressed in Canadian Dollars)

For the three months ended September 30,	2012	2011
Cash Flows From		
Operating activities		
Net loss and comprehensive loss for the year	**$ (1,197,292)**	$ (4,399,284)
Items not involving cash		
Depreciation	**13,644**	21,959
Stock-based compensation	**12,700**	119,100
Changes in non-cash working capital items		
Receivables	**3,359,486**	354,688
Prepaid expenses	**26,486**	336,373
Trade and other payables	**(528,944)**	970,593
	1,686,080	(2,596,571)
Investing activities		
Acquisitions of equipment	**(28,000)**	(252,444)
Proceeds from sale of vehicles	**66,720**	-
	38,720	(252,444)
Financing activities		
S Exercise of options	**-**	7,500
Exercise of warrants	**-**	25,236
Repayment of term loan	**(2,350,000)**	**-**
	(2,350,000)	32,736
(Decrease) in cash and cash equivalents during the period	**(625,200)**	(2,816,279)
Cash and cash equivalents, beginning of period	**854,829**	3,777,362
Cash and cash equivalents, end of year	**$ 229,629**	$ 961,083

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Interest paid	**$ 17,763**	-

See accompanying notes to interim condensed consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Gold Bullion Development Corp. ("Gold Bullion" or the "Company") is a company domiciled in Canada and was incorporated on July 17, 1985 under the Company Act of British Columbia. The Company is a publicly traded company with its shares listed on TSX Venture Exchange and the Frankfurt Stock Exchange.

These interim condensed consolidated financial statements comprise the financial statements of Gold Bullion Development Corp. and its wholly-owned subsidiary Castle Silver Mines Inc. (collectively the Company or the "Group")

The principal business of the Group is the acquisition, exploration and development of mineral property interests. The business of mining and exploring for minerals involves a high degree of risk, and there can be no assurance that planned exploration and development programs will result in profitable mining operations

The head office of the Company is at Suite 1005, 1155 Rene Levesque Blvd. West, Montreal, Quebec.

These interim condensed consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, and do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses and statement of financial position classifications that would be necessary were the going concern assumption deemed inappropriate. Such adjustments could be material.

At September 30, 2012, the Company had not yet achieved profitable operations, has accumulated losses of $54,351,409 (June 30, 2012 - $53,154,117) since its inception, has a working capital deficiency of $116,042 (June 30, 2012 – working capital $1,016,186) and expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company's ability to continue as a going concern.

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral deposits that are economically recoverable. The Company will have to find additional funds to continue its exploration activities, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company's continuing existence is dependent upon the discovery of economically recoverable reserves and resources, the preservation of its interest in the underlying properties, the ability of the Company to obtain necessary financing to complete exploration, development and construction of processing facilities, obtaining certain government approvals and the achievement of profitable operations. Changes in future conditions could require material write-downs of the carrying values. The Company's assets may also be subject to increases in royalties and taxes, renegotiation of contracts, currency exchange fluctuations and restrictions, and political uncertainty.

1. NATURE OF OPERATIONS AND GOING CONCERN (cont'd)

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements.

The Company has a need for equity capital and financing for working capital and exploration and development of its properties. Because of continuing accumulated operating losses the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations.

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements were approved and authorized by the directors of the Company on November 28, 2012.

(a) Statement of Compliance

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"), which incorporates International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). Accordingly, these condensed interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting.

(b) Basis of Measurement

These interim condensed consolidated financial statements have been prepared on the historic cost basis, except financial instruments that have been measured at fair value. In addition, these interim condensed consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(c) Functional and Presentation Currency

These interim condensed consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The Company does not have any foreign operations.

2. BASIS OF PREPARATION (cont'd)

(d) Use of Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the interim condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates and assumptions are based on management's best knowledge of the amounts, events or actions, actual results may ultimately differ from these estimates.

Decommissioning and restoration costs

Decommissioning and restoration costs will be incurred by the Company at the end of the operating life of certain of the Company's assets. The ultimate decommissioning and restoration costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal and regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. In determining the amount of the provision, assumptions and estimates are required in relation to discount rates. As a result, there could be significant adjustments to the provisions established which would affect future financial results. In the Company's judgment, the most appropriate discount rate to use is the Company's credit adjusted rate.

Income taxes

Assessing the recoverability of deferred income tax assets requires the Company to make significant estimates related to the expectations of future cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the deferred tax assets and liabilities recorded at the yearend date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

Share-based payments

The Company uses the fair value method of valuing compensation expense associated with the Company's stock option plan. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, expected forfeitures and distribution yield. Such judgements and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

(Expressed in Canadian Dollars)

2. BASIS OF PREPARATION (cont'd)

Significant Judgements, Estimates and Assumptions (cont'd)

Premium on Flow-though shares

At the time of issue, the Company estimates the proportion of proceeds attributed to the flow-through share, the common share and the warrant with reference to closing market prices and such techniques as the Black-Scholes option-pricing model. The Flow-through Premium is estimated as the excess of the subscription price over the market value of the share and is recorded in trade and other payables on the statement of financial position.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2012 included a bank guaranteed investment (GIC) in amount of $150,000 bearing interest at 1.2% annually and redeemable at anytime. This GIC was redeemed on August 28, 2012.

4. RECEIVABLES

	September 30, 2012	June 30, 2011
Commodity taxes	$ 142,527	$ 370,071
Tax credits receivable	1,278,820	4,410,762
	$ 1,421,347	$ 4,780,833

The Company is entitled to a refundable tax credit up to 35% on qualified mining exploration expenditures incurred in the Province of Quebec and a refund of mining duties at an effective rate up to 7.5% on qualified Canadian exploration expenditures net of the refundable tax credit. These refunds are applied against the exploration expenses and included in tax credits receivable.

5. DEPOSIT – LONG TERM

As at September 30, 2012 and June 30, 2012, the Company has a non-interest bearing cash deposit of $171,800 with the Quebec government as a guarantee for the restoration of the Granada mine site.

6. TRADE AND OTHER PAYABLES

	September 30,2012	June 30,2012
Trade payables	$ 1,100,111	$ 1,419,672
Due to related parties	901,640	1,111,023
Flow-through premium Liability	235,864	235,864
	$ 2,237,615	$ 2,766,559

7. EXPLORATION AND EVALUATION PROJECTS

The Company has determined that as at September 30, 2012 the following projects have not met the technical feasibility and commercial viability criteria to be capitalized and classified in mining properties, accordingly the Company has expensed all exploration and evaluation expenditures in the year. As at September 30, 2012 and June 30, 2012 the Company does not hold any assets classified as mining properties.

The Company currently has interests in the following resources projects:

a) Granada Property, Quebec, Canada

The Company holds a 100% interest to 1 mining patent, 2 leases and mining claims covering a total area of approximately 11,598 hectares. The mining leases are subject to a 2% GMR, ½ of which may be purchased for $1,000,000 and a 1% NSR and certain other claims are subject to a 2% NSR whereby 1% NSR may be purchased for $1,000,000. Cumulative exploration and evaluation expenditures made by the Company on this project as at September 30, 2012 totaled $22,506,192 (June 30, 2012 – $21,896,440).

b) Castle Property, Ontario, Canada

The Company, through its wholly owned subsidiary, Castle Silver Mines Inc., holds a 100% interest to 34 claims and 2 parcels located in the Haultain and Nicol townships of Ontario covering a total of 564.41 hectares. The property is subject to a sliding scale royalty on silver production which will start from 3% when the price of silver is US$15 or lower per troy ounce and up to 5% when the price of silver is greater than US$30 per troy ounce and a 5% gross overriding royalty on the sale of products derived from the property with a minimum annual payment of $15,000 in the form of royalties on all future production from the property. Cumulative exploration and evaluation expenditures made by the Company on this project as at September 30, 2012 totaled $2,681,315 (June 30, 2012 – $2,552,988).

c) Beaver Property, Ontario, Canada

The Company holds a 5 year option to acquire a 100% interest to an area of approximately 20 acres in Coleman Township, Ontario. The property is subject to a 3% net smelter return royalty, and the Company may purchase each 1% of the NSR royalty for $1.5 million.

The option agreement requires that the Company :

a) Pay to the optionor the sum of $10,000 upon execution of this Agreement; and

b) Incur exploration expenditures aggregating $100,000 on the property over a period of seven years as follows: $20,000 in each year on or before May 10, 2012, May 10, 2013, May 10, 2014, and $10,000 in each of the further additional four years on or before May 10, 2018.

(Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION PROJECTS (cont'd

c) Pay to the optionor, as prepayment of the Net Smelter Royalty the following amounts, commencing July 1, 2012 and continuing for a period of five years or until the property is put into commercial production, whichever is earlier:

Date of payment	Amount
July 1, 2012	$10,000
July 1, 2013	$10,000
July 1, 2014	$10,000
July 1, 2015	$15,000
July 1, 2016	$15,000

As at September 30, 2012, the Company has paid the required $20,000 and incurred cumulative exploration expenditures in amount of $93,978 (June 30, 2012 - $90,585).

The following schedule provides the details of the company's expenditures, by project, on its exploration and evaluation projects for the three months ended September 30, 2012 and 2011.

	for the three months ended September 30, 2012				for the threemonths ended September 30, 2011		
	Granada	Castle	Beaver	Total	Granada	Castle	Total
Acquisition costs	$ -	$ 2,210	$ -	**$ 2,210**	$ -	$ -	$ -
Assaying and testing	216,697	7,481	-	**224,178**	408,948	42,989	451,937
Depreciation	13,644	-	-	**13,644**	21,959		21,959
Drilling	49,018	-	-	**49,018**	1,477,958	80,209	1,558,167
Equipment costs	8,611	17,935	-	**26,546**	428,112	11,308	439,420
Facility expense	15,381	17,630	-	**33,011**	72,519	62,191	134,710
Geology and geophysics	-	4,502	-	**4,502**	-	163	163
Personnel	98,736	45,166	3,393	**147,295**	309,692	41,279	350,971
Project management	146,607	30,228	-	**176,835**	771,740	51,326	823,066
Security costs	46,124	3,175	-	**49,299**	52,029	-	52,029
Taxes permits and licensing	14,934		-	**14,934**	2,209	-	2,209
	$ 609,752	$128,327	$ 3,393	$ 741,472	$ 3,545,186	$289,465	$3,834,631

(Expressed in Canadian Dollars)

8. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2012					June 30, 2012
	Cost June 30, 2012	**Additions (Disposals)**	**Cost September 30, 2012**	**Accumulated Amortization**	**Net**	Net
Gravity plant	**$240,999**	**$ -**	**$ 240,999**	**$ 42,408**	**$198,591**	$208,955
Buildings	**395,559**	**-**	**395,559**	**23,395**	**372,164**	95,365
Equipment	**17,993**	**28,000**	**45,993**	**13,778**	**32,215**	7,389
Vehicles	**340,321**	**(66,720)**	**273,601**	**197,343**	**76,258**	213,088
	$ 994,872	**$ (38,720)**	**$ 956,152**	**$ 276,924**	**$679,228**	$524,797

9. TERM LOAN PAYABLE

At June 30, 2012 The Company had a Term Loan Payable to a Canadian financial institution which was repaid on August 28, 2012.

10. SHARE CAPITAL

Authorized

Unlimited number of common shares without par value

Issued

As at September 30,2012 and June 30,2012 there were 207,985, 074 common shares issued and outstanding.

11. SHARE-BASED PAYMENTS RESERVE

	Number of Options	Weighted Average Exercise Price	Value of Options	Number of Warrants	Weighted Average Exercise Price	Value of Warrants	Total Value
Balance June30,2012	17,590,000	0.32	6,417,675	27,945,954	0.22	1,820,912	8,238,587
Expired	(100,000)	0.14	-	(4,713,693)	0.30	(1,201,992)	(1,201,992)
Vesting	-	-	12,700	-	-	-	12,700
Balance September 30, 2012	17,490,000	0.32	6,430,375	23,232,261	0.16	618,920	7,049,295

(Expressed in Canadian Dollars)

13. SHARE-BASED PAYMENTS RESERVE (cont'd)

Warrants

On October 15, 2012, the Company reduced the exercise price of 5,718,175 share purchase warrants from $0.20 per share to $0.155 per share and reduced the exercise price of 11,257,478 share purchase warrants from $0.22 per share to $0.155. All other terms and conditions remain constant.

A summary of the Company's outstanding warrants as at September 30, 2012 is presented below. Each warrant entitles the holder to purchase one common share:

Number of Warrants	Exercise Price	Expiry Date
9,554,978	0.155	December 21, 2012
5,718,175	0.155	December 21, 2012
1,318,433	0.180	December 21,2012
12,504	0.160	December 21,2012
1,702,500	0.155	December 29, 2012
272,400	0.180	December 29, 2012
4,066,613	0.175	April 24, 2013
586,658	0.175	April 24, 2013
23,232,261	0.165	

Options

The Company's Stock Option Plan (the "Plan") provides for the granting of stock options to directors, officers, employees and consultants of the Company. Share options are granted for a term not to exceed ten years from the date of grant. All options are subject to a four month holding period from the date of grant if granted at the price lower than the market price; options granted at market prices are not subject to the hold period. The Plan is administered by the Board of Directors, which determines individual eligibility under the Plan, number of shares reserved for optioning to each individual (not to exceed 5% of issued and outstanding shares to any one individual) and the vesting period. The maximum number of shares of the Company which may be reserved for the issuance shall be 10% of the issued and outstanding shares at the time of the option grant.

The Company records the fair value of stock-based compensation on the granting of stock options over the period in which they vest. The fair value is determined using the Black-Scholes option pricing model. For the three months ended September 30, 2012, the Company recorded stock-based compensation expense of $12,700 for 200,000 previously issued options that vested

(Expressed in Canadian Dollars)

13. SHARE-BASED PAYMENTS RESERVE (cont'd)

Options (cont'd)

A summary of the Company's outstanding options as at September 30, 2012 is presented below. Each option entitles the holder to purchase one common share:

Number of Options	Exercise Price	Expiry Date
50,000	$0.10	May 11, 2014
1,300,000	0.10	September 9, 2014
500,000	0.10	February 12, 2015
125,000	0.15	March 3, 2015
100,000	0.19	March 8, 2015
200,000	0.20	April 7, 2013
50,000	0.20	April 7, 2015
400,000	0.29	April 25, 2015
5,965,000	0.46	June 21, 2015
200,000	0.47	September 22, 2015
900,000	0.48	October 6, 2015
1,200,000	0.65	January 5, 2016
850,000	0.35	March 25, 2016
300,000	0.35	July 14, 2016
4,450,000	0.13	January 4, 2022
100,000	0.13	January 4, 2022
200,000	0.15	March 9, 2017
600,000	0.15	March 9, 2014
17,490,000	$0.32	

12. RELATED PARTY TRANSACTIONS

The Company determined that key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. The Board of Directors (executive and non-executive), President & Chief Executive Officer and Chief Financial officer are key management personnel.

All related party transactions are in the normal course of operations and are measured at the exchange amounts.

1) The Company retains the services of a company owned by an officer and director of the Company to carry out exploration work on its resource properties and for management services. During the three months ended September 30, 2012, the total amount for such services provided was $98,012, of which $49,006 was recorded in exploration expenses and $49,006 in management fees. As at September 30, 2012, an amount of $121,947 was included in trade and other payables. (Note 14).

12. RELATED PARTY TRANSACTIONS (cont'd)

2) The Company retains the services of two directors and an officer to carry out administrative services. During the three months ended September 30, 2012, the total amount for such services provided was of $77,150, of which $53,150 was recorded in management fees and $24,000 was recorded in consulting fees. As at September 30, 2012, an amount of $9,500 was included in trade and other payables. (Note 14).

3) During the three months ended September 30, 2012, the Company incurred drilling expenditures of $54,766 to Landdrill International Inc. (Landdrill) on its resource properties. Two directors of the Company are also directors and officers of Landdrill. As at September 30, 2012, an amount of $770,193 was included in trade and other payables.

4) The Company has advanced and paid expenses in the amount of $1,158,666 to and on behalf of its wholly owned subsidiary. The balance is not interest bearing with no specific terms of repayments. The amount was eliminated in preparing the interim condensed consolidated financial statements.

13. CONTINGENCIES

a) The Company's operations are subject to governmental laws and regulations regarding environmental protection. The environmental consequences are hardly identifiable, whether with the outcomes, the impacts or the deadline. At the date of the financial statements and to the best knowledge of its management, the Company is, at the present, in conformity with the laws and regulations except as disclosed in note 13(b) below. Restoration costs will be accrued in the financial statements only when they can be reasonably estimated and will be charged to the earnings at that time.

On September 10, 2008, the Company received 48 statements of offence pursuant to the *Environment Quality Act* (Québec) (the "Act") for allegedly of failing to comply with certain conditions of its permit for a current project on the Company's Granada property and for non respect of the Act. The statements of offence relate to the period from November 1, 2006 to November 14, 2007. The statements of offence include fines in an aggregate amount of $97,000. The Company pleaded not guilty to all of these statements of offence. In the event the Company is declared guilty to all of these statements of offences, additional fees in the aggregate amount of $51,098 will be charged to the Company pursuant to the Regulation respecting the rate to determine the costs of sampling, analysis, inspection or investigation included in the costs of civil or penal proceedings instituted for the purposes of the environment Quality Act. The trial is scheduled for April 2013.

The Company has vigorously contested all of the statements of offence; accordingly, no provision of the claim has been made in the financial statements. Any amounts if due, resulting from the claim will be recorded in the period in which they are determined.

13. CONTINGENCIES (cont')

b) The Company is partly financed by the issuance of flow-through shares. However, there are no guarantees that the funds spent by the Company will qualify as Canadian exploration expenditures, even if the Company has taken all the necessary measures for this purpose. Refusal of certain expenses by the tax authorities would have a negative tax impact for investors.

Moreover, tax rules regarding flow-through investments set deadlines for carrying out the exploration work no later than the first of the following dates:

- Two years following the flow-through investment;
- One year after the Company has renounced the tax deductions relating to the exploration work.

Commitments to carry out exploration work that are not respected are subject to a combined tax rate of 26.9% (Federal and Provincial).

During the year ended June 30, 2011, the Company received $4,357,090 from flow-through share issuance. According to the tax rules, the Company has until December 31, 2012 to spend this amount on qualified exploration expenditures. As at September 30, 2012 the Company has spent the full amount.

In December 2011, the Company received $4,052,692 flow-through share issuance. According to the tax rules, the Company has until December 31, 2012 to spend this amount on qualified exploration expenditures. As at September 30, 2012 the Company has spent the full amount.

c) As at June 30, 2011, the Company was assessed $550,562 for Quebec Sales Tax and Goods and Services Tax, which has been paid. The Company has filed a notice of objection with the Ministere du Revenu du Quebec for these assessments.

d) On March 15, 2012, a supplier instituted an action against the Company in the amount of $783,652 before the Superior Court of Quebec. The Company is contesting that claim and has filed a counter-claim in the amount of $25,431,906. The claim and counter-claim are presently in their infancy in that no examinations have yet to take place. The facts reviewed by the Company's legal counsel indicate that the Company has a strong defence to the claim asserted by the supplier and has serious grounds supporting its counter-claim.

14. COMMITMENTS

a) Consulting service agreements

The Company has consulting service agreements with related parties (certain officers and directors).

(1) Effective January 1, 2007, the Company entered into a management agreement with Grupo Moje Limited ("Grupo"), a company owned by a director and officer of the Company. The fee for management services is 20 ounces of gold per month. The dollar amount calculated is based on the price of gold which is quoted in U.S. dollars convert into Canadian dollars on the same date as at the end of each quarter. Either party may terminate this engagement by giving four months notice to the other subject to certain provisions of the agreement. Effective December 1, 2010 this agreement was amended to require that if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to Grupo equal to 240 ounces of gold with the dollar amounts to be calculated based on the price of gold on the date of termination of the agreement.

(2) Effective July 1, 2010, the Company entered into a consulting agreement with a director and officer of the Company. The fee for consulting services is $7,500 per month. Either party may terminate this engagement by giving four months notice to the other, subject to certain provisions of the agreement. This agreement also requires that if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to the consultant of $90,000. Effective January 1, 2012 this agreement was amended as follows: The fee for consulting services is $9,500 per month and if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to the consultant of $114,000.

(3) Effective December 1, 2010, the Company entered into an agreement with a consultant of the Company. The fee for consulting services is $6,500 per month. Either party may terminate this engagement by giving four months notice to the other subject to certain provisions of the agreement. The agreements also requires that if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make payments to the consultant in the amounts of $78,000. Effective October 1, 2011, the agreement was amended as follows: The fee for consulting services is $8,000 (previously $6,500) per month and if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to the consultant of $96,000 (previously $78,000). In April 2012, this consultant was appointed a director.of the Company.

14. COMMITMENTS (cont'd)

(4) Effective March 1, 2011, the Company entered into a consulting agreement with an officer of the Company. The fee for consulting services is USD $6,000 per month. Either party may terminate this engagement by giving four months notice to the other subject to certain provisions of the agreement. This agreement also requires that if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to the consultant of USD $72,000. Effective February 1, 2012, this agreement was amended as follows: The fee for consulting services is USD $8,000 per month and if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to the consultant of USD $96,000.

Consulting service agreement with non-related party

(5) Effective December 1, 2010, the Company entered into an agreement with a consultant of the Company. The fee for consulting services is $6,000 per month. Either party may terminate this engagement by giving four months notice to the other subject to certain provisions of the agreement. The agreement also requires that if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make payments to the consultant in the amounts of $72,000. Effective January 1, 2012, the agreement was amended as follows: The fee for consulting services is $8,000 (previously $6,000) per month and if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to the consultant of $96,000 (previously $72,000).

b) Exploration and Evaluation projects (Note 9)

15. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT DISCLOSURES

Overview

The Company's financial instruments consist of cash and cash equivalents, receivables, trade and other payables, due to related parties and long-term debt. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. Due to their short term nature, the fair value of these financial instruments approximates their carrying value.

The Company has exposure to the following risks from its use of financial instruments:

- Interest rate risk;
- credit risk;
- liquidity risk;
- market risk; and
- operational risk.

15. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT DISCLOSURES (cont'd)

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board fulfils its responsibility through the Audit Committee, which is responsible for overseeing the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management practices are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company has an established code of conduct which sets out the control environment within which framework all directors' and employees' roles and obligations are outlined.

The Company's risk and control framework is facilitated by the small-sized and hands-on executive team.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has not entered into any derivative contracts to manage this risk. The Company's policy as it relates to its cash balance is to invest excess cash in financial instruments guaranteed by and held with a Canadian chartered bank.
As at September 30, 2012 , the Company's exposure to interest rate risk is summarized as follows

Cash and cash equivalents	Interest 0 to 1.2%
Receivables	Non-interest bearing
Trade and other payables	Non-interest bearing

Credit Risk

Credit risk is the risk of an unexpected financial loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and receivables.

Cash and cash equivalents

The Company's cash is held through large Canadian financial institutions. The Company has a corporate policy of investing its available cash in Canadian government instruments and certificates of deposit or other direct obligations of major Canadian banks, unless otherwise specifically approved by the Board. The Company does not own asset-backed commercial paper.

15. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT DISCLOSURES (cont'd)

Receivables

When necessary, the Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures.

Further, when the Company engages in corporate transactions, it seeks to manage its exposure by ensuring that appropriate recourse is included in such agreements upon the counterparty's failure to meet contractual obligations.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking undue damage to the Company's reputation.

The Company's objective is to maintain sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. This is accomplished by budgets and forecasts which are updated on a periodic basis to understand future cash needs and sources. Spending plans are adjusted accordingly when possible to provide for liquidity.

The Company manages its liquidity risk through the mechanisms described above and as part of Capital Disclosures below. The Company has historically relied on issuances of shares to develop projects and to finance day-to-day operations and may do so again in the future.

The Company has no significant long-term liabilities. All other contractually obligated cash flows are payable within the next fiscal year.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices will affect the Company's income, the value of its EEP properties or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

a) Price risk

The Company is exposed to price risk with respect to fluctuation in gold and silver prices which impacts the future economic feasibility of its mining interests. Gold and silver prices are affected by numerous factors such as the sale or purchase of gold and silver by various institutions, interest rates, exchange rates, inflations in the value of the US dollar and foreign currencies, global and regional supply and demand, and the political and economic conditions of major gold and silver producing counties throughout the world.

15. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT DISCLOSURES (cont'd)

b) Foreign currency exchange risk

The Company is exposed to foreign currency exchange risk with respect to future gold and silver sales, since gold and silver sales are denominated in US dollars and the Company's currency is the Canadian dollar. The Movement on US rates may impact the future economic feasibility of the Company's mining interests

Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. The Company has a small but hands-on and experienced executive team which facilitates communication across the Company. This expertise is supplemented, when necessary, by the use of experienced consultants in legal, compliance and industry-related specialties. The Company also has standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- development of contingency plans;
- ethical and business standards; and
- risk mitigation, including insurance when this is effective and available.

Capital Management Disclosures

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of exploration and evaluation projects. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company considers its Capital to be equity, which is comprised of common shares, share based payments reserves and deficit, which as at June 30, 2012 totalled $2,019,578 (June 30, 2011 – $6,367,003).

15. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT DISCLOSURES (cont'd)

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

The Company currently has no source of revenues, and therefore is dependent on external financing to fund activities. In order to carry future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended June 30, 2012. The Company is not subject to external imposed capital requirements.